

**FAIRVIEW INDEPENDENT
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Fairview Independent School District (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Fairview Independent School District. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the *Independent Auditor's Contract - General Audit Requirements* and Appendix II to the *Independent Auditor's Contract - State Audit Requirements and Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fairview Independent School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 29, 2005, on our consideration of Fairview Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairview Independent School District's basic financial statements. The combining and individual non-major fund financial statements contained on pages 32-35 are presented for purpose of additional analysis and are not a required part of the basic financial statements. Additionally, the schedule of expenditures of federal awards contained on page 36 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kelley, Gallaway + Company, PSC

July 29, 2005

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

As management of the Fairview Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of this report.

FINANCIAL HIGHLIGHTS

- The beginning General Fund cash balance for the District was \$448,792. The remaining \$294,483 in cash and cash equivalents is restricted for grants, construction, food services and student activities and is accounted for in separate funds. The ending General Fund cash balance was \$141,735, and there was \$519,831 in cash and cash equivalents in other funds.
- During fiscal 2005, the District felt little impact of the declining economy. Interest income remained stable. The District is primarily reliant on funding by the Commonwealth of Kentucky. The Commonwealth's budget remains volatile but did not have a negative impact on funding for the District due to an increase in enrollment in this fiscal year. The District ended with a 3.43% contingency balance.
- The General Fund had \$4.28 million in revenue, of which 67.1% consisted of the state funding (SEEK program), and 13.6% in property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there was \$4.47 million in General Fund expenditures during the year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$136,774 in bond payments during the 2004-2005 year.
- Total enrollment increased from 696 students in 2004 to 744 in 2005. Average daily attendance increased from 638.6 to 683 students in the same period. The SEEK funding is based upon average daily attendance.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of facilities, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The state has mandated a uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental or proprietary funds. The District's only proprietary fund is food service operations. All other activities of the District are included in the governmental funds.

The governmental fund financial statements can be found on pages 11-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 21-32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2005 as compared to June 30, 2004.

	June 30, 2005	June 30, 2004
Current Assets	\$ 623,995	\$ 746,617
Noncurrent Assets	3,904,331	3,825,364
Total Assets	<u>4,528,326</u>	<u>4,571,981</u>
Current Liabilities	224,685	268,282
Noncurrent Liabilities	2,702,049	2,764,898
Total Liabilities	<u>2,926,734</u>	<u>3,033,180</u>
Net Assets		
Invested in capital assets (net of debt)	1,103,008	948,519
Unrestricted	498,584	590,282
Total Net Assets	<u>\$ 1,601,592</u>	<u>\$ 1,538,801</u>

FUND FINANCIAL STATEMENTS

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2005 and 2004, were \$5.7 and \$5.2 million, respectively.
- General fund budget to actual comparison varied slightly from line item to line item with the ending actual balance being \$153,307 more than budget. The increase resulted primarily from \$71,104 more in revenues as compared to the budget, partially offset by \$69,798 and \$37,647 in expenditures greater than the budget for plant operations and instructional expenses.
- The total cost of all programs and services of the Governmental Funds and Proprietary Funds was \$5.8 million and \$5.2 million for the fiscal years ended June 30, 2005 and 2004, respectively.
- Site Based Decision Making Councils expended 68.6% of the General Fund budget. Additionally, 17.1% was spent on maintenance and operations, 4.9% on District administration, 3.5% on transportation and 5.9% on business support services.

Summary of Revenue and Expense for the Years Ended June 30, 2005

The following analyses summarized revenues and expenses for the governmental funds and the proprietary funds on a combined fund basis:

	2005 Amount	2004 Amount
Revenues:		
Local revenue sources	\$ 816,431	\$ 771,016
State revenue sources	4,184,960	3,863,633
Federal revenue sources	674,153	564,993
Other	2,250	2,103
Total revenues	<u>5,677,794</u>	<u>5,201,745</u>
Expenses:		
Instruction	3,025,492	2,858,382
Student Support services	179,648	151,683
Instructional support	215,188	208,755
District administration	218,443	274,660
School administration	233,254	205,097
Business Support	262,014	213,474
Plant Operations	766,289	479,135
Student transportation	122,461	121,100
Community Services	82,318	72,432
Food Services	357,259	320,831
Debt Services	295,023	288,248
Total expenses	<u>5,757,389</u>	<u>5,193,797</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (79,595)</u>	<u>\$ 7,948</u>

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2005 - 2006 with 5.61% in contingency. The cash balance for beginning the fiscal year is \$141,735. Significant Board action that impacts the future finances includes the passing of a 3% tax to be levied on all gas, electric, water, telephone, cable, and cell phone bills. The Board is also constantly looking to upgrade facilities in the District as funds become available.

Questions regarding this report should be directed to the Superintendent, William Musick, or to the Finance Director, James Day, (606) 324-3877, or by mail at 2100 Main St. WW, Ashland, KY 41102.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 527,370	\$ 70,517	\$ 597,887
Receivables (net of allowances for uncollectibles):			
Property taxes	18,887	-	18,887
Inventories	-	7,221	7,221
Capital assets, not being depreciated	305,319	-	305,319
Capital assets, being depreciated, net	<u>3,506,670</u>	<u>92,342</u>	<u>3,599,012</u>
Total assets	<u>4,358,246</u>	<u>170,080</u>	<u>4,528,326</u>
Liabilities:			
Accounts payable	6,344	-	6,344
Deferred revenue	74,951	-	74,951
Accrued salaries	971	-	971
Portion due or payable within one year:			
Capital leases	17,419	-	17,419
Bond obligations	125,000	-	125,000
Portion due or payable after one year:			
Accrued sick leave	43,145	-	43,145
Capital leases	103,904	-	103,904
Bond obligations	<u>2,555,000</u>	<u>-</u>	<u>2,555,000</u>
Total liabilities	<u>2,926,734</u>	<u>-</u>	<u>2,926,734</u>
Net Assets:			
Invested in capital assets, net of related debt	1,010,666	92,342	1,103,008
Unrestricted	420,846	77,738	498,584
Total net assets	<u>\$ 1,431,512</u>	<u>\$ 170,080</u>	<u>\$ 1,601,592</u>

The accompanying notes to the financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 3,187,110	\$ -	\$ 619,740	\$ -	\$ (2,567,370)	\$ -	\$ (2,567,370)
Support services:							
Students	179,753	-	-	-	(179,753)	-	(179,753)
Instructional staff	219,397	-	25,083	-	(194,314)	-	(194,314)
District administration	223,821	-	-	-	(223,821)	-	(223,821)
School administration	233,779	-	-	-	(233,779)	-	(233,779)
Business and other support services	262,014	-	-	-	(262,014)	-	(262,014)
Operation and maintenance of plant	625,728	-	-	-	(625,728)	-	(625,728)
Student transportation	81,634	-	-	-	(81,634)	-	(81,634)
Community services	82,633	-	72,930	-	(9,703)	-	(9,703)
Food service operations	51,636	-	-	-	(51,636)	-	(51,636)
Debt service	158,249	-	-	315,264	157,015	-	157,015
Total governmental activities	5,305,754	-	717,753	315,264	(4,272,737)	-	(4,272,737)
Business-type activities:							
Food service	305,623	136,229	179,525	-	-	10,131	10,131
Total business-type activities	305,623	136,229	179,525	-	-	10,131	10,131
Total primary government	\$ 5,611,377	\$ 136,229	\$ 897,278	\$ 315,264	\$ (4,272,737)	\$ 10,131	\$ (4,262,606)
General revenues:							
Taxes -							
Property taxes, levied for general purposes					\$ 523,303	\$ -	\$ 523,303
Motor vehicles					105,464	-	105,464
Intergovernmental revenues - state					3,646,571	-	3,646,571
Investment earnings					21,250	1,686	22,936
Loss on disposal of capital assets					(3,626)	-	(3,626)
Other local revenues					28,499	2,250	30,749
Total general revenues					4,321,461	3,936	4,325,397
Change in net assets					48,724	14,067	62,791
Net assets, June 30, 2004					1,382,788	156,013	1,538,801
Net assets, June 30, 2005					\$ 1,431,512	\$ 170,080	\$ 1,601,592

The accompanying notes to financial statements are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General Fund	Special Revenue Fund	SEEK Capital Outlay Fund	Non- Major Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 141,735	\$ 74,951	\$ 273,703	\$ 36,981	\$ 527,370
Receivables (net of allowances for uncollectibles):					
Taxes	18,887	-	-	-	18,887
Total assets	<u>\$ 160,622</u>	<u>\$ 74,951</u>	<u>\$ 273,703</u>	<u>\$ 36,981</u>	<u>\$ 546,257</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 6,344	\$ -	\$ -	\$ -	\$ 6,344
Accrued salaries	971	-	-	-	971
Deferred revenue	-	74,951	-	-	74,951
Total liabilities	<u>7,315</u>	<u>74,951</u>	<u>-</u>	<u>-</u>	<u>82,266</u>
Fund balances:					
Reserved for debt service	-	-	140,713	-	140,713
Unreserved	153,307	-	132,990	36,981	323,278
Total fund balances	<u>153,307</u>	<u>-</u>	<u>273,703</u>	<u>36,981</u>	<u>463,991</u>
Total liabilities and fund balances	<u>\$ 160,622</u>	<u>\$ 74,951</u>	<u>\$ 273,703</u>	<u>\$ 36,981</u>	<u>\$ 546,257</u>

The accompanying notes to the financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund balances - total governmental funds	\$ 463,991
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds financial statements.	3,811,989
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Some liabilities, including bonds payable and capital lease obligations, are not due and payable in the current period and therefore, are not reported in the governmental funds financial statements.	<u>(2,844,468)</u>
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Net assets of governmental activities	<u>\$ 1,431,512</u>
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The accompanying notes to the financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Special Revenue Funds	SEEK Capital outlay Fund	Non- Major Funds	Total Governmental Funds
Revenues:					
From local sources -					
Taxes -					
Property	\$ 476,770	\$ -	\$ -	\$ 46,533	\$ 523,303
Motor vehicles	105,464	-	-	-	105,464
Interest income	21,126	105	-	19	21,250
Other local revenues	28,499	-	-	-	28,499
Intergovernmental - state	3,646,571	219,562	68,780	246,484	4,181,397
Intergovernmental - indirect federal	-	498,191	-	-	498,191
Total revenues	<u>4,278,430</u>	<u>717,858</u>	<u>68,780</u>	<u>293,036</u>	<u>5,358,104</u>
Expenditures:					
Current -					
Instruction	2,395,647	629,845	-	-	3,025,492
Support services:					
Students	179,648	-	-	-	179,648
Instruction staff	190,105	25,083	-	-	215,188
District administration	218,443	-	-	-	218,443
School administration	233,254	-	-	-	233,254
Business and other support services	262,014	-	-	-	262,014
Operation and maintenance of plant	766,289	-	-	-	766,289
Student transportation	122,461	-	-	-	122,461
Community services	9,388	72,930	-	-	82,318
Food service operation	51,636	-	-	-	51,636
Debt service	34,049	-	-	260,974	295,023
Total expenditures	<u>4,462,934</u>	<u>727,858</u>	<u>-</u>	<u>260,974</u>	<u>5,451,766</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(184,504)</u>	<u>(10,000)</u>	<u>68,780</u>	<u>32,062</u>	<u>(93,662)</u>
Other financing sources (uses):					
Transfers in	-	10,000	-	169,805	179,805
Transfers out	(10,000)	-	-	(169,805)	(179,805)
Total other financing sources (uses)	<u>(10,000)</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(194,504)	-	68,780	32,062	(93,662)
Fund balances, June 30, 2004	<u>347,811</u>	<u>-</u>	<u>204,923</u>	<u>4,919</u>	<u>557,653</u>
Fund balances, June 30, 2005	<u>\$ 153,307</u>	<u>\$ -</u>	<u>\$ 273,703</u>	<u>\$ 36,981</u>	<u>\$ 463,991</u>

The accompanying notes to the financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds	\$ (93,662)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	283,336	
Depreciation expense	<u>(187,950)</u>	
		95,386

Losses on disposal of capital assets are not recognized in the fund financial statements. However, in the statement of activities, these losses are recognized.	(3,626)
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Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but are recognized in the statement of activities when they are incurred for long-term accrued sick leave.	(24,896)
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Bond and capital lease proceeds are recognized as revenues in the fund financial statements, but are increases in liabilities in the statement of net assets.	(61,252)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	<u>136,774</u>
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Change in net assets of governmental activities	\$ <u>48,724</u>
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The accompanying notes to the financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005**

	<u>Food Service Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 70,517
Inventories	<u>7,221</u>
Total current assets	<u>77,738</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>92,342</u>
Total noncurrent assets	<u>92,342</u>
Total assets	<u>\$ 170,080</u>
Liabilities and Net Assets:	
Current liabilities:	
Accounts payable	\$ -
Total current liabilities	<u>-</u>
Total liabilities	<u>-</u>
Net Assets:	
Invested in capital assets	92,342
Unrestricted	<u>77,738</u>
	<u>170,080</u>
Total net assets	<u>\$ 170,080</u>

The accompanying notes to the financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Food Service Fund
Operating revenues:	
Lunchroom sales	\$ 136,229
Total operating revenues	<u>136,229</u>
Operating expenses:	
Salaries and wages	112,301
Employee benefits	18,205
Contract services	6,113
Materials and supplies	153,295
Depreciation	15,142
Other operating expenses	567
Total operating expenses	<u>305,623</u>
Operating loss	<u>(169,394)</u>
Non-operating revenues:	
Federal grants	163,504
Donated commodities	12,458
State grants	3,563
Investment income	1,686
Miscellaneous income	2,250
Total nonoperating revenue	<u>183,461</u>
Increase in net assets	14,067
Net assets, June 30, 2004	<u>156,013</u>
Net assets, June 30, 2005	<u>\$ 170,080</u>

The accompanying notes to the financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 136,229
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(160,476)
Payments to employees	(130,506)
Other payments	<u>(567)</u>
Net cash used for operating activities	<u>(155,320)</u>
Cash flows from noncapital financing activities:	
Government grants	167,067
Other receipts	<u>2,250</u>
Net cash provided by noncapital financing activities	<u>169,317</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(2,349)</u>
Net cash used for capital and related financing activities	<u>(2,349)</u>
Cash flows from investing activities:	
Interest received on investments	<u>1,686</u>
Net cash provided by investing activities	<u>1,686</u>
Net increase in cash and cash equivalents	13,334
Cash and cash equivalents, June 30, 2004	<u>57,183</u>
Cash and cash equivalents, June 30, 2005	<u><u>\$ 70,517</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (169,394)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	15,142
Donated commodities	12,458
Change in assets and liabilities:	
Inventory	(910)
Accounts payable	<u>(12,616)</u>
Net cash used for operating activities	<u><u>\$ (155,320)</u></u>
Non-cash items:	
Donated commodities	<u><u>\$ 12,458</u></u>

The accompanying notes to the financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Agency Funds
Assets:	
Cash and cash equivalents	\$ 63,679
Total assets	<u>\$ 63,679</u>
Liabilities:	
Due to students	\$ 63,679
Total liabilities	<u>63,679</u>
Net assets held in trust	<u>\$ -</u>

The accompanying notes to the financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues:				
Taxes -				
Property	\$ 450,000	\$ 450,000	\$ 476,770	\$ 26,770
Motor vehicles	98,000	98,000	105,464	7,464
Interest income	10,000	10,000	21,126	11,126
Other local revenues	12,000	12,000	28,499	16,499
Intergovernmental - state	2,727,008	2,877,879	2,887,124	9,245
Total revenues	<u>3,297,008</u>	<u>3,447,879</u>	<u>3,518,983</u>	<u>71,104</u>
Expenditures:				
Current:				
Instruction	1,716,238	1,811,631	1,849,278	(37,647)
Support services:				
Students	138,946	145,814	144,611	1,203
Instructional staff	179,174	182,833	169,876	12,957
District administration	608,905	176,778	198,941	(22,163)
School administration	187,220	198,801	198,942	(141)
Business and other support services	254,843	235,947	247,205	(11,258)
Operation and maintenance of plant	430,718	673,020	742,818	(69,798)
Student transportation	122,159	117,929	117,767	162
Contingency	-	209,137	-	209,137
Debt service	34,050	34,050	34,049	1
Total expenditures	<u>3,672,253</u>	<u>3,785,940</u>	<u>3,703,487</u>	<u>82,453</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(375,245)</u>	<u>(338,061)</u>	<u>(184,504)</u>	<u>153,557</u>
Other financing sources (uses):				
Transfers out	<u>(10,000)</u>	<u>(9,750)</u>	<u>(10,000)</u>	<u>(250)</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>(9,750)</u>	<u>(10,000)</u>	<u>(250)</u>
Net change in fund balance	<u>(385,245)</u>	<u>(347,811)</u>	<u>(195,504)</u>	<u>153,307</u>
Fund balance, June 30, 2004	<u>385,245</u>	<u>347,811</u>	<u>347,811</u>	<u>-</u>
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 153,307</u>	<u>\$ 153,307</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			\$ 759,447	
On-behalf payments:				
Instruction			(546,369)	
Support Services				
Students			(35,037)	
Instruction Staff			(20,229)	
District administration			(19,503)	
School administration			(34,312)	
Business and other support services			(14,809)	
Operation and maintenance of plant			(23,471)	
Student transportation			(4,694)	
Community service			(9,388)	
Food service operations			(51,635)	
Fund balance, June 30, 2005 (GAAP basis)			<u>\$ 153,307</u>	

The accompanying notes to the financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Interest income	\$ 500	\$ 500	\$ 105	\$ (395)
Intergovernmental - state	244,940	208,598	219,562	10,964
Intergovernmental - indirect federal	341,083	514,422	498,191	(16,231)
Total revenues	<u>586,523</u>	<u>723,520</u>	<u>717,858</u>	<u>(5,662)</u>
Expenditures:				
Current:				
Instruction	489,739	673,039	629,845	43,194
Support services:				
Instructional staff	35,614	48,802	25,083	23,719
Community services	70,920	72,930	72,930	-
Total expenditures	<u>596,273</u>	<u>794,771</u>	<u>727,858</u>	<u>66,913</u>
Excess (deficiency) of revenues over (under) expenditures	(9,750)	(71,251)	(10,000)	61,251
Other financing sources (uses):				
Transfers in	9,750	9,750	10,000	250
Total other financing sources and uses	<u>9,750</u>	<u>9,750</u>	<u>10,000</u>	<u>250</u>
Net change in fund balance	-	(61,501)	-	61,501
Fund balance, June 30, 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ (61,501)</u>	<u>\$ -</u>	<u>\$ 61,501</u>

The accompanying notes to the financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

(1) REPORTING ENTITY

The Fairview Independent School District ("Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Fairview Independent School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fairview Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Fairview Independent School District Finance Corporation

On September 27, 1993 the Fairview Independent Board of Education resolved to authorize the establishment of the Fairview Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Fairview Independent School District also comprise the Corporation's Board of Directors.

Copies of component unit reports may be obtained from the District's Finance office at 2100 Main St. WW, Ashland, Kentucky 41102.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

The accounting policies of the Fairview Independent School District substantially comply with accounting principles generally accepted in the United States and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information

that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program, or function and therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balance is considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain

integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a major fund of the District.
2. The Facility Support Program of Kentucky Fund (FSPK Building Fund) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough

thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditure) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory at the lower of cost or market, on the first-in, first-out basis.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
Other general equipment	7-10 years

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem tax is levied prior to October 1, of each year on the assessed value listed as of the prior January 1, for all real and business property located in the District. The assessed value of property upon which the levy for 2005 fiscal year was based was \$72,408,549.

The tax rates assessed for the year ended June 30, 2005 to finance general fund operations were \$.702 on real estate and \$.702 on tangible property per \$100 valuation.

Taxes are due on October 1 and become delinquent by February 1 of the following year. Current tax collections for the year ended June 30, 2005 were 103% of the amount levied.

In-Kind

The District receives commodities from U.S.D.A. The amounts of commodities are recorded in the accompanying financial statements at their estimated fair market values.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See note (13) for these amounts which were not known by management at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund balances which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent

assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2005, the carrying amount of the Board's cash and cash equivalents was \$661,566 and the bank balances totaled \$876,664. Of the total bank balances, \$100,000 was insured by the Bank Insurance Fund and \$776,664 was secured by collateral held by the pledging banks' trust departments, in the District's name.

General Fund cash and cash equivalents at June 30, 2005 consisted of a money market checking account.

Due to the nature of the account and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue (Grant) Funds, Debt Service Funds, School Food Service Funds, and School Activity Funds.

(4) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Governmental Activities				
Land	\$ 305,319	\$ -	\$ -	\$ 305,319
Land improvements	227,185	77,908	-	305,093
Buildings and improvements	4,327,269	120,008	-	4,447,277
Technology equipment	430,107	19,734	(59,602)	390,239
General equipment	136,279	7,649	-	143,928
Vehicles	350,503	58,037	(42,165)	366,375
Totals	<u>5,776,662</u>	<u>283,336</u>	<u>(101,767)</u>	<u>5,958,231</u>
Less: accumulated depreciation				
Land improvements	159,510	10,490	-	170,000
Buildings and improvements	1,219,080	96,461	-	1,315,541
Technology equipment	345,828	46,929	(55,976)	336,781
General equipment	66,232	11,056	-	77,288
Vehicles	265,783	23,014	(42,165)	246,632
Total accumulated depreciation	<u>2,056,433</u>	<u>187,950</u>	<u>(98,141)</u>	<u>2,146,242</u>
Governmental Activities Capital Assets - Net	<u>\$ 3,720,229</u>	<u>\$ 95,386</u>	<u>\$ (3,626)</u>	<u>\$ 3,811,989</u>
Business-Type Activities				
Food service equipment	\$ 214,647	\$ 2,349	\$ (3,288)	\$ 213,708
Less: accumulated depreciation				
Food service equipment	<u>109,512</u>	<u>15,142</u>	<u>(3,288)</u>	<u>121,366</u>
Business-Type Activities Capital Assets - Net	<u>\$ 105,135</u>	<u>\$ (12,793)</u>	<u>\$ -</u>	<u>\$ 92,342</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 95,204
Student support services	105
Instructional staff support	4,209
District administration	5,378
School administration	525
Plant operation and maintenance	65,004
Student transportation	17,210
Community services	315
	<u>\$ 187,950</u>

(5) OPERATING LEASES

The District has an operating lease agreement for use of equipment cancelable annually with the option to renew. The District recognizes the expenditures related to those obligations as lease payments are made. Total rent expenditures under operating type leases were approximately \$6,846.

(6) LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as bond and lease obligations represents the District's future obligations to make lease payments relating to bonds issued by the Fairview Independent School District Finance Corporation aggregating \$3,155,000, and to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$169,424.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Issue of 1996	\$ 120,000	5.0% - 5.75%
Issue of 1999	3,035,000	4.2% - 5.55%
Issue of 2000	53,470	4.3% - 5.3%
Issue of 2001	54,702	3.5% - 4.7%
Issue of 2004	61,252	1.0% - 3.5%

The District, through the General Fund, Facilities Support Program (FSPK) Fund and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on the bonds issued by the Fairview Independent Board of Education Finance Corporation and the Fairview Independent School District to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

A summary of activity in bond obligations and other debts is as follows:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2005</u>
1996 Issue	\$ 85,000	\$ -	\$ 5,000	\$ 80,000
1999 Issue	2,715,000	-	115,000	2,600,000
2000 Issue	33,101	-	5,223	27,878
2001 Issue	43,744	-	4,973	38,771
2004 Issue	-	61,252	6,578	54,674
Total	<u>\$ 2,876,845</u>	<u>\$ 61,252</u>	<u>\$ 136,774</u>	<u>\$ 2,801,323</u>

In connection with the bond issues of 1996 and 1999, the District entered into a participation agreement with the School Facility Construction Commission (the "Commission"). The

Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity on all bond issues.

The bonds may be called prior to maturity at redemption premiums as specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District on outstanding bonds, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Fairview Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2006	\$ 80,427	\$ 88,672	\$ 44,573	\$ 46,573	\$ 260,245
2007	83,232	84,784	46,768	44,380	259,164
2008	90,874	80,559	49,126	42,022	262,581
2009	93,353	76,021	51,647	39,501	260,522
2010	100,680	71,191	54,320	36,828	263,019
2011-2015	572,543	273,496	317,457	138,282	1,301,778
2016-2020	738,568	102,129	356,432	46,206	1,243,335
	<u>\$ 1,759,677</u>	<u>\$ 776,852</u>	<u>\$ 920,323</u>	<u>\$ 393,792</u>	<u>\$ 3,850,644</u>

Future minimum debt service on bonds payable to KISTA, at June 30, 2005, are as follows:

Year	Principal	Interest	Total
2006	\$ 17,419	\$ 4,603	\$ 22,022
2007	16,832	3,984	20,816
2008	17,416	3,356	20,772
2009	17,041	2,680	19,721
2010	17,721	2,011	19,732
2011-2015	34,894	2,729	37,623
	<u>\$ 121,323</u>	<u>\$ 19,363</u>	<u>\$ 140,686</u>

(7) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments, and known retirements during the next fiscal year.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources.

(8) INTERFUND TRANSFERS

Interfund transfers at June 30, 2005, consisted of the following:

Type	From	To	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 10,000
Operating	FSPK Building Fund	Debt Service	Bond Payments	169,805

(9) RETIREMENT PLANS

Kentucky Teachers Retirement System

The Fairview Independent School District contributes to the Kentucky's Teachers' Retirement System (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes statements and the required supplementary information for the defined benefit pension plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Rd., Frankfort, Kentucky 40601, or by calling (502) 573-5120.

Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky contributes matching contributions at the rate of 13.105%. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires members to occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE).

Contributions to KTRS made on behalf of the District by the Commonwealth of Kentucky for the year ended June 30, 2005 were \$284,857 and the Board paid \$17,501 from federal grant monies to KTRS in matching contributions for federally funded employees for a total of \$302,358 paid to KTRS, equal to the required contribution for the year.

County Employee's Retirement System

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the state legislature.

Funding for the plan is provided through payroll withholdings of 5.00% and a District contribution of 8.48% of the employee's total compensation subject to contribution. The contribution requirement for CERS for the year ended June 30, 2005 was \$88,187 which consisted of \$55,524 from the District and \$32,663 from the employees.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Rd., Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at their website at www.kyret.com.

(10) CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantors' review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant

programs is predicted upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Board Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

(13) ON-BEHALF PAYMENTS

For fiscal year 2005, the Commonwealth of Kentucky contributed payments on behalf of the Fairview Independent School District as follows:

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 302,358
Health Insurance Plan	431,863
Vocational Payments	25,226
	<u>\$ 759,447</u>

These amounts are included in the Government-wide statement of activities and the Governmental Fund statement of revenues, expenditures, and changes in fund balances as state revenues and expenses allocated to the different functions in the same proportion as full-time employees.

SUPPLEMENTARY INFORMATION

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005**

	FSPK Building Fund	Debt Service Funds	Total Non-Major Governmental Funds
Assets:			
Cash and cash equivalents	\$ 36,980	\$ 1	\$ 36,981
Accounts receivable	-	-	-
Total assets	<u>\$ 36,980</u>	<u>\$ 1</u>	<u>\$ 36,981</u>
Liabilities and Fund Balance:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Unreserved	<u>36,980</u>	<u>1</u>	<u>36,981</u>
Total fund balance	<u>36,980</u>	<u>1</u>	<u>36,981</u>
Total liabilities and fund balances	<u>\$ 36,980</u>	<u>\$ 1</u>	<u>\$ 36,981</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	FSPK Building Fund	Debt Service Funds	Total Non-Major Governmental Funds
Revenues:			
From local sources -			
Property taxes	\$ 46,533	\$ -	\$ 46,533
Earnings on investments	-	19	19
Intergovernmental - state	155,336	91,148	246,484
Total revenues	<u>201,869</u>	<u>91,167</u>	<u>293,036</u>
Expenditures:			
Current-			
Debt service	-	260,974	260,974
Total expenditures	<u>-</u>	<u>260,974</u>	<u>260,974</u>
Excess (deficiency) of revenues over (under) expenditures	<u>201,869</u>	<u>(169,807)</u>	<u>32,062</u>
Other financing sources (uses):			
Operating transfers in	-	169,805	169,805
Operating transfers out	(169,805)	-	(169,805)
Total other financing sources (uses)	<u>(169,805)</u>	<u>169,805</u>	<u>-</u>
Net change in fund balance	32,064	(2)	32,062
Fund balance, June 30, 2004	<u>4,916</u>	<u>3</u>	<u>4,919</u>
Fund balance, June 30, 2005	<u>\$ 36,980</u>	<u>\$ 1</u>	<u>\$ 36,981</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Cash Balance June 30, 2004	Receipts	Disburse- ment	Cash and Deposits Held in Custody For Students June 30, 2005
Annual	\$ 2,713	\$ 13,825	\$ 9,296	\$ 7,242
Athletic Ads	-	4,730	4,730	-
Athletic Boosters	4,551	15,485	19,987	49
Athletic Revolving	-	5,164	5,164	-
Athletics Activity	12	2,964	2,976	-
Band A	2,554	12,392	13,953	993
Band B	-	5,404	5,404	-
Band Uniform	2,914	-	-	2,914
Baseball	-	9,576	9,576	-
Boys Basketball	-	24,593	24,593	-
Cheerleaders - Varsity	1,271	2,178	292	3,157
Cheerleaders Activity	2,238	3,420	2,083	3,575
Chorus	237	3,500	2,522	1,215
Chorus Activity	558	31,162	29,103	2,617
Class of 2006	1,000	109	1,109	-
Close up	1,003	-	756	247
Coke - ACT	39	609	648	-
Coke - Staff	279	750	811	218
Coke - High School	273	960	1,191	42
Cross Country	-	5,401	5,401	-
Drama	1,544	2,932	3,561	915
Elementary Academic Team	430	1,842	1,900	372
Elementary Basketball	704	1,595	1,890	409
Elementary General	283	8,767	8,392	658
Elementary Library	2,012	7,577	9,124	465
FBLA Club	41	2,512	2,386	167
F.C.A.	462	258	213	507
Football	-	44,910	44,910	-
FRYSC	24,703	33,072	27,276	30,499
Girls Basketball	-	9,457	9,457	-
Golf	-	1,576	1,576	-
High School General	-	8,513	5,619	2,894
Honor Society	266	631	334	563
Interest	70	1,535	1,513	92
Junior Class	489	5,571	5,122	938
Leo Club	5	287	-	292
School Patrol	130	7,518	7,648	-
School Pictures - Elementary	936	-	474	462
School Pictures - High School	761	1,285	1,811	235
School Store - Elementary	356	-	-	356
Senior Class	425	2,575	2,682	318

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS - (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2005**

	Cash Balance June 30, 2004	Receipts	Disburse- ment	Cash and Deposits Held in Custody For Students June 30, 2005
Senior Class Special	479	-	479	-
Sixth Grade Banquet	210	1,036	1,190	56
Softball	-	5,939	5,939	-
Spanish Club	1,952	-	1,129	823
State Textbooks - Elementary	36	193	-	229
State Textbooks - High School	74	652	585	141
Student Council	104	354	454	4
Student Deposits	-	4,795	4,780	15
Track	-	8,618	8,618	-
Volleyball	-	3,294	3,294	-
Yearbook - Elementary	600	819	1,419	-
Total Activity Funds	<u>\$ 56,714</u>	<u>\$ 310,335</u>	<u>\$ 303,370</u>	<u>\$ 63,679</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
National School Lunch Program	10.555	0575-04-02	-	\$ 25,779
National School Lunch Program	10.555	0575-05-02	-	94,654
National School Breakfast Program	10.553	0576-04-05	-	10,620
National School Breakfast Program	10.553	0576-05-05	-	32,451
Passed Through State Department of Education Commodities Program	10.569	N/A		<u>12,458</u>
Total U.S. Department of Agriculture				<u>175,962</u>
U.S. Department of Education				
Passed through State Department of Education:				
Title I	84.010	0351-03-01	170,911	152,800
Title VI	84.298	0533-04-02	2,874	2,874
IDEA, Part B	84.027	0581-04-02	127,523	127,523
IDEA, Part B Preschool	84.173	0587-04-02	11,801	11,801
Vocational Education, Title IIC	84.048	0462-04-02	6,693	6,693
Drug-Free Schools and Communities	84.186	0590-04-02	4,505	3,763
Migrant Education Basic Grant	84.011	0352-04-02	5,198	1,500
Tech Literacy Challenge	84.318	0736-04-02	4,004	4,004
Improving Teaching Quality	84.367	0710-04-02	30,571	30,314
Passed through Boyd County School District: 21 st Century	84.287	N/A		<u>77,011</u>
Total U.S. Department of Education				<u>418,283</u>
Total expenditures of Federal Awards				<u>\$ 594,245</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2005, commodities on hand included in the total inventory of \$5,772.



Kelley,
Galloway &
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

We have audited the financial statements of the Fairview Independent School District (District) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the *Independent Auditors' Contract-General Audit Requirements*, Appendix II to the *Independent Auditors' Contract-State Audit Requirements* and Appendix III to the *Independent Auditors' Contract-Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to management of the Fairview Independent School District in a separate letter dated July 29, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing*

Standards. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract-State Audit Requirements*, and Appendix III to the *Independent Auditor's Contract - Electronic Submission*.

This report is intended solely for the information of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended and should not be used for anyone other than these specified users.

Kelley, Holloway & Company, PSC
July 29, 2005



Kelley,
Galloway &
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

Compliance

We have audited the compliance of the Fairview Independent School District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs on page 41. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fairview Independent School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified users.

Kelley, Galloway & Company, PSC

July 29, 2005

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. An unqualified opinion was issued on the basic financial statements.
2. The audit of the basic financial statements of Fairview Independent School District as of and for the year ended June 30, 2005, did not disclose any internal control related reportable conditions.
3. The audit did not disclose any noncompliance which is material to the basic financial statements of the Fairview Independent School District as of and for the year ended June 30, 2005.
4. There were no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance over major programs.
6. The audit did not disclose any findings and questioned costs related to federal awards for the year ended June 30, 2005.
7. The programs tested as major programs for the year ended June 30, 2005 were as follows:
 - Food Service Cluster (CFDA No. 10.553 and 10.555)
 - IDEA Part B and Preschool (CFDA No. 84.027 and 84.173)
8. The dollar threshold used for distinguishing Types A and B programs was \$300,000.
9. The Fairview Independent School District did not qualify as a low-risk auditee under OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

None noted.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None noted in current year.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

None in prior year.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005

There were no findings that require a corrective action plan in the current year.



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Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

In planning and performing our audit of the financial statements of Fairview Independent School District (the "District") for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated July 29, 2005, contains our report on internal control over financial reporting which disclosed no internal control related matters which were considered to be material weaknesses. This letter does not affect our report dated July 29, 2005, on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with responsible District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Kelley, Galloway & Company, PSC

July 29, 2005

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2005**

Payroll

During our testing of the internal controls over the payroll process, we noted there was not written approval available to verify rates paid to substitute teacher aides. While management states that the rate currently being paid was approved 4 years ago by the Board, no documentation was found. We recommend the Board pass a resolution authorizing the current pay rate used for substitute teacher aides to ensure the payroll processor has written guidelines for all pay rates.

School Activity Funds

During our testing of controls concerning cash disbursements, we noted a voucher used to authorize pay to an official for a girls basketball game was signed by another official present at the game. This increases the risk that activity fund monies are misappropriated. We recommend the Athletic Director sign-off on the voucher and the coach obtain the appropriate signature and return the voucher to the responsible individual for processing.